Semester 2 examination, 2020

**ATAR**

**ECONOMICS**

**Year 11**

**MARKING KEY**

**(ADAPTED)**

**2020 SEM 2 11 Economics Marking Key**

**Section One (24 Marks)**

1. If planned leakages exceed planned investment over a given period:
2. Output will rise
3. Cyclical unemployment will rise
4. The rate of inflation will rise
5. Incomes will rise
6. Using data in the table below identify the country that will experience a fall in income, output and expenditure in the future.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Country | Income ($b) | Consumption ($b) | Planned investment ($b) | Government spending ($b) | Net exports ($b) |
|  | 100 | 60 | 20 | 25 | -5 |
|  | 100 | 75 | 10 | 15 | 5 |
|  | 100 | 60 | 15 | 15 | 0 |
|  | 100 | 55 | 20 | 25 | 0 |

1. Which of the following pairs of events would indicate that an economy is starting to recover from a trough?
2. Rising interest rates and lower numbers of job advertisements
3. Mining investment is low and hotel booking rates are low
4. Inflationary pressure and excess capacity in manufacturing industry
5. Falling levels of inventory and rising retail sales
6. Which of the following would be considered leading economic indicators?

i. Share prices

ii. Inflation rate

iii. Unemployment rate

iv. Building approvals

v. Real GDP

1. ii and iii
2. i and iv.
3. ii and v
4. iv and v
5. Real GDP rose from $250 Bn in Year 1 to $255 Bn in Year 2. Over the course of the year, population rose 2.1%. On these figures, we would conclude that
6. real GDP per capita fell
7. real GDP per capita rose
8. there was no change in welfare
9. the economy had gone into a recession

Question 6 refers to the model below

****

1. In a business cycle, if an economy is experiencing low inflation, rising cyclical unemployment and low levels of import spending then it is likely to be moving from:
2. A to B
3. C to D
4. B to C
5. D to E
6. The term 'capital deepening' refers to
7. public investment on infrastructure such as railways and ports.
8. a 5% increase in the nations capital stock which accompanies a 5% increase in other factors used in production.
9. an increase in the stock of capital relative to the stock of labour inputs.
10. investment in long term projects which are likely to show a positive return only after several years.
11. Which of the following is **not** likely to cause inflation?
12. An increase in income tax
13. Rising import prices.
14. An increase in government spending.
15. Increases in wage rates matched by an increase in labour productivity.

|  |  |
| --- | --- |
| Period | CPI |
| June 2019 | 114.8 |
| Sept 2019 | 115.4 |
| Dec 2019 | 116.2 |
| March 2020 | 116.6 |
| June 2020 | 117.0 |

1. Refer to the data in the table right, which shows quarterly Consumer Price Index (CPI) numbers for Country X. As at June 2020, the annual rate of inflation stood at \_\_\_\_\_\_\_\_; and the quarterly rate was \_\_\_\_\_\_\_\_\_.
2. 2.2%; 0.3%
3. 1.4%; 0.3%
4. 1.9%; 0.3%
5. 1.2%; 1.1%
6. Which of the following is a **correct** statement based on the data in the table.

|  |  |
| --- | --- |
| Total population | 25m |
| Population of working age | 20m |
| People employed | 14m |
| People unemployed | 1m |

1. The participation rate is 75% and the unemployment rate is 7.14%
2. The participation rate is 70% and the unemployment rate is 7.14%
3. The participation rate is 80% and the unemployment rate is 6.67%
4. The participation rate is 75% and the unemployment rate is 6.67%
5. One weakness (or limitation) of the CPI is that it does **not**
6. reflect the average Australian’s purchases of goods and services
7. account for changes in the quality of goods over time
8. account for changes in price levels of consumer goods
9. reflect a change in the base year for inflation calculations
10. Which of the following statements about Real Gross Domestic Product (GDP) is **false**?
11. It includes the value of home-based duties
12. It adjusts the value of production for inflation
13. It can be used to indicate changes in material living standards
14. It gives little indication of how evenly the benefits of production have been distributed
15. The table shows hypothetical data for an economy

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| S | G | M | T | I | X |
| 200 | 400 | 350 | 300 | 350 | 250 |

 Which row of the table is correct for the economy?

|  |  |  |
| --- | --- | --- |
|  | Trade balance  | Economic Growth  |
|  | Surplus  | Positive |
|  | Surplus  | Negative  |
|  | Deficit  | Positive |
|  | Deficit  | Negative  |

1. Which of the following is not an economic objective of the Australian Government?
2. Price Stability
3. A more equitable distribution of income and wealth
4. External trade
5. Full employment
6. Where the tax is collected is the \_\_\_\_\_\_\_\_ of the tax and where the burden of the tax falls is the \_\_\_\_\_\_\_\_\_ of the tax.
7. Size, incidence
8. Impact, size
9. Impact, incidence
10. Incidence, impact
11. What is the definition of an efficient tax?
12. A tax that is cheap to collect
13. A simple flat rate tax
14. The benefits of collecting the tax should outweigh the costs of collecting the tax
15. A tax that raises enough money to sustain government spending
16. The difference between disposable income and final income is
17. direct tax
18. direct benefits
19. indirect benefits
20. interest, rent and dividends
21. The Gini Co-efficient can be defined as
22. a measurement of income inequality in a country
23. a measure to describe perfect income equality
24. a measure that explains how income is evenly distributed
25. none of the above
26. If Country A has a Gini coefficient of 0.54 and Country B has a Gini Coefficient of 0.32, then:
27. Country A has a more equal distribution of income than Country B
28. Country B has a more equal distribution of income than Country A
29. Country A has perfectly equal income distribution than Country B
30. Country B has a more inequitable distribution of income than Country

|  |  |
| --- | --- |
| **Section Two Data Interpretation** **Question 20**1. Calculate the underutilisation rate for 2019? ­­­­­­­­­­­­­­­­­
* UE rate + Underemployment rate = 5% + 8.1% = 13.1%

(must have % sign for mark) (+/- 0.1%)1. "In 2020 the underemployment rate rose to 11.8%."

 Define underemployment. Explain why the underemployment rate rose in 2020.* An underemployed person is someone that wants to work more hours than are available. E.g. someone working 15 hrs a week and wanting to work 40hrs week. Or someone that is overqualified for the position they are in. e.g. an engineer working at McDonalds.

 Any valid reason accepted * Recession
* COVID 19
* Spare capacity in the economy
1. State the natural rate of Unemployment for Australia. Outline the two main types of unemployment that make up the natural rate of unemployment.
* 4.5%
* Frictional unemployment (moving between jobs)
* Structural unemployment (mismatch between skills)
1. Describe **three** economic effects of unemployment.
* **HH**- Loss of income, many households have major spending commitments (mortgage, credit agreements etc.)
* Fall in real living standards
* Increased health risks (stress, reduction in quality of diet, social exclusion because of loss of work and income)
* Loss of marketable skills (human capital) and motivation
* The longer the duration of unemployment, the lower the chances of finding fresh employment
* **Firms** - Fall in demand for goods and services - less profits
* **Government** - increased spending on unemployment benefits and other income –related state welfare payments
* **Government -** Fall in revenue from income tax and taxes on consumer spending. Fall in company profits reduces revenue from corporation tax
* Lost output (real GDP) from people being out of work – the economy will be operating below potential.
* More uneven distribution of income
 | **36 Marks** **12 Marks** (1 mark)1 mark(2 marks)1 mark1 mark (3 marks) 1 mark 1 mark 1 mark(6 marks)3x2 marks |

|  |  |
| --- | --- |
| **Question 21**1. From the table, determine the Economic Growth rate and the Unemployment rate in 2019-20
* Economic Growth rate = -6.3%
* UE = 6.8%
1. Using the data, outline the extent to which Australia has achieved its economic objectives over the period 2017-18 to 2019-20.

Australia is not achieving its economic objectives * The target rate for growth is 3.5% Growth has been slowing from 2017-19 from 2.9 - 2.0% In 2020 growth is negative at -6.3%.
* Inflation target is 2-3% on average over time. Inflation has been slowing from 2017-19 from 2.1% to 1.6%. in 2020 inflation is negative -0.3%
* Full employment target is 4.5% - UE remained steady from 2017-19 at 5.3%, however in 2020 it rose to 6.8%
1. The efficient allocation of resources is a government objective. How can this be measured and why is an important objective to achieve?

 **Measured** * labour productivity (LP)= output per unit of labour

or * efficiency of labour (GDP / no of hours worked across the economy)

 **Why is it important? (any valid point accepted)**Attempting to achieve maximum efficiency from our resources.Increased efficiency promotes sustainable growth through:* improved price stability - reduces cost inflation
* increased employment (through development of industries we have a comparative advantage in
* improved international competitiveness

"Overall household consumption is estimated to have declined by around 10 per cent in the June quarter 2020." 1. Explain **three** factors that may have contributed to the decline in household consumption in the June quarter 2020.

**Consumption - DIGEWO*** **Disposable income** fall in Yd due to job losses - COVID related
* **Expectation** if expectations low due to recession🡪 fall in confidence →Fall in C
* **Wealth** if wealth decreases due to asset values such as houses and share portfolio’s falling 🡪 decrease in C
* **Consumer indebtedness** – Debt = how much is owed in terms of bank loans. High levels of HH debt 🡪 fall in C
* **Distribution of Y** more people UE - greater income inequality- fall in C

**Any other valid point accepted.**  | **12 Marks** (1 mark)0.5 mark0.5 mark(3 marks)1 x 3 (0.5mark target 0.5mark reference to data in table)(2 marks)1 mark 1 mark(6 marks)3x2 marks |
| **Question 22**1. Define the term modified market economy and using examples, explain the four key roles of the government in a modified market economy.

**Definition*** A modified market economy is an economic system that is based on private ownership, free enterprise and markets, but feature some level of government intervention.

**The provision of goods and services*** natural monopolies
* public goods and merit goods
* regulation of common property goods

**Redistribution of income*** transfer payments and indirect government benefits
* direct and indirect taxes.

**The regulation of business enterprises*** legislation and regulation
* government monopolies in essential utilities
* reducing externalities.

**Stabilizing the business cycle*** key macroeconomic objectives
* demand management approaches.- fiscal/monetary policies

**Must explain why gov carry out these roles for full marks** 1. Define taxation and using examples and diagram(s), distinguish between proportional, regressive and progressive types of taxation.

**Definition Tax*** Compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services, and transactions.

**Progressive tax e.g. Personal income tax** * Progressive tax*—*A tax that takes a larger percentage of income from high-income groups than from low-income groups.
* A graph with a line and a line  Description automatically generated with medium confidenceAustralia’s PAYG tax system is an example of a progressive tax system. Australia has a system of income tax ‘brackets’ which create a ‘stepped’ relationship between income and tax payable
* **Regressive tax** - A tax that takes a larger percentage of income from low-income groups than from high-income groups.
* Example: GST 10%- This is because the amount of tax paid is the same irrespective of your income. The lower income earner will pay the same dollar value of tax as the high-income earner

A graph with a line and a point  Description automatically generated with medium confidence* **Proportional tax—**A tax that takes the same percentage of income from all income/profit groups.
* Example: Company Tax. All Companies pay the same tax rate, regardless of income/ profit. Company tax rate 2017-18 was 27.5% (annual turnover $25m or less), 30% for any companies with an annual turnover greater than $25m

A graph with a line and a line  Description automatically generated with medium confidence | **20 Marks** (10 marks)2 marks 2 marks 2 marks 2 marks 2 marks (10 marks)1 mark 1 mark defin1 mark e.g. 1 mark diagram 1 mark defin1 mark e.g. 1 mark diagram 1 mark defin1 mark e.g. 1 mark diagram  |

|  |  |
| --- | --- |
| **Question 23**1. Using the **five-sector** circular flow of income model explain how the economy might achieve a higher level of equilibrium if Injections are greater than Leakages.
* **MODEL** – accurate illustration of 5 sector model
* If injections > Leakages i.e. **more spending than output.**🡪 **Inventories decrease Firms will then** **increase production** 🡪 increase in output (O)
* **More resources** needed 🡪 **increase in income (Y)**
* **Increase in income (Y)** 🡪 **increased expenditure (E)** 🡪 **rise in output** and so on….for successive rounds.
* **Keeps rising until at a higher level**. O = Y = E at a new higher equilibrium level. Economy has expanded
1. Describe **FOUR** factors influencing investment in the Australian economy.

**Investment - GRIPED*** **Government policy** – expansionary policy. Rise in G/ Fall in T 🡪 incr I, Monetary policy – fall in Ir 🡪 rise in I
* **Risk**: risk determined by political uncertainty, global instability. If risk falls 🡪 rise in I
* **Interest rates** : Ir and I have indirect relationship. If perceived rate of return > Ir 🡪 I. If interest rates fall 🡪 OC of investing falls 🡪 rise in I. Also businesses paying less on existing loans 🡪 rise in I
* **Profit levels**: Businesses who experience a rise in profits due to overseas growth, fall in costs 🡪 rise in profits 🡪 incr I
* **Expectations:** If expectations rise due to EG thus perception of lower risk levels 🡪 rise in I
* **Level of Aggregate Demand -** Falling inventories during times of high AD will lead to increased output 🡪increased I, Extent of idle capacity or surplus productive capacity in times of high AD 🡪 a low level of productive capacity 🡪 rise in I
1. Discuss **three** determinants of economic growth.
* **Demand side growth (actual growth)** An increase in any component of C, I, G, or NX →↑ production of goods and services.
* **Supply side growth (increase in potential output)** This is what the economy is capable of producing if all resources are fully employed.The potential rate of economic growth is determined by the stock of resources **(quantity and quality**)
* Land (natural) The size of the natural resource base, import raw materials, better technology for farming etc.
* Labour (human) - The rate of population change - natural/ immigration, Improvements in the skills and productivity of the labour force, education and training.
* Capital (physical) - The rate of increase in capital equipment per worker, investment, R & D etc.
* Enterprise (human) - Reduced tax rates, Technological progress and the application of new ideas to the productive process - management training/ innovation etc.

**ANY valid points accepted**  | **20 Marks** (6 marks)2 marks 1 mark 1 mark1 mark1 mark (8 marks) 4 X 2  (6 marks) 3 x 2 Full marks **can be** awarded without discussing demand side growth  |
| **Question 24**1. Explain the difference between the headline and underlying measures of inflation.
* **Define Inflation**: the persistent and appreciable rise in the general level of prices
* **Define Headline inflation**: raw figure using the CPI, often reported by the media
* **Define Underlying inflation**: the headline rate with volatile items excluded
* Clearly identify the differences
	+ Headline includes all goods in the basket, underlying takes out volatile items
	+ Underlying provides a more realistic view of how changes in inflation affect the average consumer
1. Describe the concepts of demand pull and cost push inflation, and outline how each would be affected in the boom phase of the business cycle.

**Demand Pull Inflation*** ‘too much money chasing too few goods’
* Caused by high levels of aggregate demand

**Boom phase** * Prices move above the RBA’s 2-3% target rate.
* High inflation (>3%) – due to **demand pull** pressure on final goods markets from rising C and I spending

**Model** - D. Pull - AD curve shifts to right **Cost push Inflation*** Occurs when rising production costs are passed on to consumers
* Can also be caused by supply shocks e.g. bush fires

**Boom phase** * **Cost push pressure** on factor markets due and supply side constraints such as shortage of workers and therefore rising wage rates.

**Model -** C. Push - AS curve shifts to left 1. Explain how high inflation may impact the following groups:

 * Fixed income earners.
* Borrowers.
* Australian exporters.

**Impact on fixed income earners*** Negatively impacted.
* High inflation erodes the store of value in money.
* With no ability to change income, fixed income earners will find their purchasing power has decreased. Real income and standards of living fall.

**Impact on borrowers*** Positively impacted
* Borrowers who have borrowed at a fixed rate of interest will find that the value of the money they are paying back decreases over time.

**Impact on Australian exporters*** Negatively impacted
* Higher prices domestically make Australian exports less attractive to overseas consumers
* Decreases Australian exporters’ international competitiveness
 | **20 Marks** (4 marks)1 mark 1 mark 1 mark 1 mark (10 marks)2 -3 marks 2 -3 marks 0 - 1 mark(max 5 marks)2- 3 marks 2 -3 marks  0-1 mark(max 5 marks)(6 marks)3 x 2 marks  |